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The Effect on USSR Trade Balances in 1957 of Recent Soviet Agreements with the European Satellites

Revision of Soviet agreements and other trade arrangements with the Satellites in 1957, as is estimated, will cost the Soviets approximately \$900 million in 1957. This cost represents an estimated decrease in 1957 of Soviet imports from Eastern Europe of \$900 million together with an increase of Soviet exports of \$350 million. The total Soviet commodity imports and exports are each running at an annual rate of slightly more than \$3 billion, this implies that total imports will decline by about 10 percent, total exports will rise by about 11 percent.

Of this one half (\$450 million) of the total consists of reduced competition cost payments upon East Germany and the Polish and Rumanian debt cancellations. In general, for 1957, the USSR has accelerated a policy of releasing the Satellites from interest and commodity payments whose collection was impractical. Local Communists, however, can use these concessions to indicate the possibilities for success in improving economic conditions for themselves.

To calculate the cost of trade concessions in 1957, the following must be determined: commitments which will result in decreased imports, and Soviet commitments which result in increased exports. In considering the debt cancellation agreements, the major increase is the commitment to decrease imports on the part of the GDR. The Warsaw agreement regarding the GDR share of occupation costs similarly represents a commitment to decrease imports. In considering the credit agreements, the commitments for increased Soviet exports are being increased. By themselves, both the decreased imports and increased exports will tend to produce a net export surplus in the USSR's commodity trade with the European Satellites.

The western impact of the 1956 Soviet commitments will be seen in 1957, when the agreements provide for the transfer of Soviet commitments to a schedule of payments, which represent shortly thereafter. In 1957, for example, the export of goods resulting from the 1956 commitments will only be about 1/4 that of 1956, or 1,000 million in 1958 as compared with 4,000 million in 1957. In 1957, therefore, additional Soviet commitments may shift more of the relative burden into 1958.

Revised Soviet Export Commitments

The Polish Case

In December, the outstanding Polish debt to the USSR amounting to \$2.1 billion was cancelled. The sum was the equivalent of the value of which Poland had committed in selling 92,000,000 metric tons of coal to the USSR at a discount of 10% in the period 1946-53.

The December, 1956, agreement to cancel the most significant of 1946-53 by about \$10 per ton to the original extremely low price, thus wiping out the entire indebtedness to the USSR. When the low coal prices had ceased to flow into the USSR, after a protocol had been signed to that effect, only some \$100 million remained due to the USSR by the price adjustment.

In his report to the State on December 30, Premier Gromyko reported that

the new scheduled time payment of more than 2 billion rubles in the years 1957-60, also pointed out, however, that even with the debt cancellation, the balance of payments for 1957-60 would be adverse, that the goals of the Five Year Plan were not being met. Furthermore, Gromyko had termed the debt "not sound or proper." It is thus questionable whether the debt would or could have actually been repaid.

For the U.S.

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Nevertheless, for the purpose of calculation of the business report of 1955

the amount, approximately one sixth of the total value is entered as the portion
of payment to the USSR (\$60,000,000), or one year's payment on the 0.1 billion
loan.

The Russian Case

Russia had been in debt to the USSR for its purchase in 1954 of the
first Soviet-Romanian expedition (Sovrom), at a reported price of 4.3 billion
rubles. The original debt was to have been repaid over a ten-year period; however,
Russia issued payment that would have been expected to 100 million rubles or (\$20,000,000).
This amount is included in the currency accounting. (The recent cancellation was in
the amount of 4.3 billion rubles thus implying that the 1955 installment of the debt
was not.)

It should be noted, however, there are reasons for doubting that there was
a real basis for the entire debt. The sale in 1954 is reported to have been made
on the basis of the prevailing currency unit, thus possibly overvaluing the USSR with 50 per
cent more in ruble terms than it was entitled to receive. //

It had been the practice for the USSR to take its share of the profits of
the Soviet-Romanian expedition; meanwhile, Soviet reimbursement in those
early years was effected through reduced imports or shipment of equipment. Protopopov,
Minister of Romania, in his radio broadcast discussing the agreement, stated that the
Soviet reimbursement in the plants would still have to be paid over. Thus, the USSR
insisting on getting the full value of its share in the profits covering the full
first years of operations of the Government.

...also announced that the USSR had postponed for a year the...

credits granted to Russia in the period 1957-60. (The amount of the...

...however; hence this cannot be included.

2. The East German Agreement

The July agreement is reported to have been available to the GDR...

...1.5 billion DM in the period 1957-60. Of this, 1.2 billion DM...

...a 30 percent reduction in the German share of Soviet occupation costs; the...

...of foreign exchange, Soviet production in East Germany, in...

...prices for West German ore. The Soviet commitment to decrease input...

...at 130 million a year. This commitment, however, may contain a hidden...

...e.g., defense production for the USSR, and was previously included in...

3. The Hungarian Case.

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As is well known, the uprising in Hungary caused the economic...

...to a halt. The effect upon exports to the USSR in 1957 cannot be...

...However, the Hungarians have said that since the beginning of the year...

...the damage suffered by commerce" was an estimated 600 million forints. (\$7 million)...

In view of the magnitude of the damage, a meaningful estimate of the effect on...

...Soviet exports is not possible at this time.

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Summary of Soviet Export CommitmentsSee caption

The following table summarizes the 1956 credit agreements made by the

with the following details: 3/

Soviet Export Commitments with the United States, 1956

	Amount	To be repaid on	To be repaid
1956-57	\$92.5 million	1956-59	10 years @ 3%
1957-58	Estimated at \$110 million	1957-60	10 years
1959-60	\$4 million (oil and coke)	1957	Hungarian goods in 1957
	\$15 million (foreign exchange)	1957	1958-65 @ 2%
	\$15 million (raw materials)	1957	-
	\$50 million (hard currency)	1957	No terms known
1960-61	\$80 million (goods & gold)	1956	1957-60 @ 2% (new installment)
	\$175 million (goods)	1955-59	1958-65
	\$100 million (grain)	1957	1961-62
	\$31 million (steel)	1957	1959-61
	\$14.3 million (rubber)	1957	1959-61
	\$67.5 million (industrial credits)	1957 (1)	10 years from commencing

2. Hungarian Export Constraints

One factor in the Hungarian situation not yet mentioned in the report relevant to other difficulties which Hungary will not be able to meet and which may or may not be met partly by the USSR. Insofar as the USSR has agreed to meet Hungarian export constraints, however, either through its own exports or through the loan of exportable commodities, the effect of this on USSR exports is very probably already covered in the above figures. If the USSR receives no immediate gold and goods for its exports, then they are a gift or a loan, for which the USSR would certainly have to make a public acknowledgment. If the USSR not only meets Hungarian exportable goods through payment for them through increased imports from countries allied with the USSR, the surplus of the Soviet Union would not be affected.

Total Net Effect on USSR-Related Debt

In the following table, all the foregoing have been put into terms of one year's net to the Soviet Union.

Estimated 1971 Debt to USSR in Terms of Net Debt Changes

Payments to Soviet Export Constraints

	Million \$US
Polish debt cancellation	60
Romanian debt cancellation	80
USSR compensation debt adjustment	350
Foreign Exchange Transfer (estimated)	60
	<u>550</u>

Payments to Soviet Constraints

Polish loan	25
Soviet Government agreement	110
Romanian loan	25
Polish loan	180
Romanian loan (estimated)	15
	<u>395</u>
Total	912

or 3 billion the gross annual surplus of an agreement extending to 1980 covering a credit in the amount of \$3 billion in gold and free currencies.

of the total figure of about \$900 million, debt cancellations and the lower
 and upon the East German account for \$500 million. The cancellations of
 and Russian debts represent an extension of earlier Soviet recognition of
 to Satellite production could reach unrealistic and exaggerated heights.
 the case of East Germany, the USSR cut in half the GDR share in the costs of
 obtaining Russian loans in Germany. In agreeing to cut the figure in half the
 it gives the appearance of being generous and also retains a sizeable trump card
 future negotiations.

The bulk of the remaining figure of about to \$400 million is loans. It is of
 special interest that 1957 food and grain commitments account for \$135.3 million,
 and 50 percent of Soviet credits for goods scheduled for 1957 delivery. These loans
 are repayable and consequently, contribute only temporarily to a Soviet export surplus.

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CENTRAL INTELLIGENCE AGENCY
Office of the Chief, Economic Research
Office of Research and Reports

Project Action Memorandum

Project No. 42 1696
Date: 28 Dec 56

TITLE: Soviet Financial Losses Resulting from New Agreements with the European Satellites


REQUESTER: Self

STATEMENT OF THE PROBLEM AND TERMS OF REFERENCE:

Problem: To estimate the approximate magnitude of the additional annual financial expense to the USSR caused by the recent necessity to make fair deals with the EuSats.

Terms of Reference: The approach to this problem will be made by a comparison of the recent price changes in major USSR imports from the EuSats and to estimate the magnitude of debt cancellation. This project is expected to result in a study suitable for publication in CEE Weekly or as a CSM.

RESPONSIBILITY:

	<u>Man hours</u>	<u>Due Dates</u>	<u>Concurrence (Initials)</u>
<u>Action Division:</u>	D/S	7 Jan 57	<u>RWB</u>
<u>Branch:</u>	S/ET 50		
<u>Consulting Branches:</u>	M/S		
	M/NE		
	M/FM		
	M/P		
<u>Staffs:</u>	CS		<u>12/56</u>
	SC/EE		
<u>Principal Analyst:</u>			
<u>Project Monitor:</u>			

25X1A

This project will not delay completion of currently scheduled projects. The classification of this project will be no higher than SECRET.

APPROVED: 2/6 Ch/E

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